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MARKETS

Regulatory Scrutiny Transforms Washington's Political-Intelligence Business

Alex Vogel Says Greater Compliance Burden is Among Reasons Spurring Shift From a Business in Regulators' Cross Hairs

By BRODY MULLINS

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Alex Vogelspent the last decade building a Washington lobbying business with a successful practice feeding investors information about potentially market-moving changes in policy.

But with federal investigators scrutinizing Washington's interactions with hedge funds and other traders, Mr. Vogel is quitting his firm. His new venture, VogelHood Research, will make all its predictions based on computer algorithms using publicly available information—without ever talking to members of Congress or other policy makers.

Mr. Vogel's shift shows how Washington's political-intelligence business is going through a wrenching transformation in the face of heightened legal and regulatory scrutiny, including insider-trading probes.

In recent months, a number of lobbyists have left the political-intelligence business, and several lobbying and law firms have created new internal procedures and protocols to guard against violating insider-trading rules.

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Some hedge funds and other Wall Street firms have, meanwhile, scaled back their own information-gathering activities in the capital, and others are conducting reviews of their Washington operations, according to people familiar with the political-intelligence industry. The Wall Street Journal profiled the political-intelligence practice at New York broker-dealer JNK Securities in 2011. It later exited the business. A company official declined to comment for this article.

Mr. Vogel's lobbying firm hasn't been associated with any allegations of improper trading. But he says he is shifting his business as the industry evolves.

"The market has been demanding the change," said Mr. Vogel. "The combination of dramatically increased access to data via growth in transparency, and the increased compliance burden on the old access model made the change obvious to us."

A representative for Mr. Vogel's old lobbying firm, now named Mehlman Castagnetti Rosen Bingel & Thomas Inc., declined to comment.

Hedge-fund giant SAC Capital Advisors was once among the biggest clients of political-intelligence firms, according to people in the industry, who said the firm had dozens of lobbying firms on retainer to feed its traders information. The hedge-fund firm—which changed its name to Point72 Asset Management earlier this year and stopped managing outside money after pleading guilty to insider-trading charges—no longer pays people to gather information about government policy changes, according to people familiar with the Point72's business.

Hedge-fund investors say they have a legal right to seek information from the government, provided they aren't basing trades on nonpublic, market-moving information, according to people familiar with the thinking at several fund firms.

Driving the changes in the political-intelligence industry are worries that regulators are increasing their scrutiny of how investors trade using information that originates in government. "The SEC is trying to make a test case, and you don't want to be it," said Rob Walker, an ethics lawyer and former congressional-ethics attorney.

A Securities and Exchange Commission spokesman declined to comment.

Michael Mayhew, the president of Integrity Research Associates, a New York firm that monitors the policy-research business, said a number of hedge funds have retreated from the industry. "A few years ago, they would use as many political-intelligence firms as they needed—now they are being extremely careful. Some are using no firms. Others are using only those they have carefully vetted," he said.

The changes come amid SEC and Justice Department investigations into possible insider-trading violations involving stock tips from Washington.

The Journal reported Wednesday that prosecutors are gathering evidence and testimony for a federal grand jury in New York. In that matter, which involves a possible April 2013 leak of a government health-care announcement, the SEC has issued subpoenas for documents and testimony from officials with the U.S. House Ways and Means Committee.

The SEC is also looking into whether investors were illegally tipped off about a decision by the Food and Drug Administration to delay approval for a new diabetes drug, the Journal reported last year.

In addition, the 2012 Stock Act, a law designed to tighten rules on congressional stock trading, has created new uncertainties about what types of information lawmakers and congressional aides can share with Wall Street analysts. It "has really put a chill on the political-intelligence industry," said Sam Geduldig, a lobbyist with Clark Geduldig Cranford & Nielsen.

All told, those in the industry say the ambiguities in the new law and the law-enforcement investigations involving Washington information have made it unclear precisely what is legal and what isn't. That is what Mr. Vogel says led him to come up with his new way to gather information about government policy for investors.

His old firm ranked as one of the 10 largest lobbying firms last year, when Mr. Vogel made a salary of $1.5 million, according to public filings and Mr. Vogel.

Today, instead of seeking information from congressional aides or agency officials, Mr. Vogel's firm aims to arrive at policy predictions based on publicly available metrics, such as campaign donations, lobbying expenditures, congressional voting records and polling data.

"Unlike 'political intelligence' firms, we don't provide access to or interact with government officials or policy makers at any state of our research process or analysis," the firm says in a confidential prospectus being distributed to hedge funds and other potential clients.

Mr. Vogel got his start as an election lawyer at a Washington law firm before working as deputy counsel at the Republican National Committee. He rose to be chief counsel to Tennessee Republican Bill Frist, the former Senate majority leader. In 2004, Mr. Vogel left Capitol Hill to found his lobbying and consulting firm, just as Washington's political-intelligence industry began to take off.

Major Wall Street investment houses had been following broader economic trends in Washington for decades. Hedge funds were hungry for tips about other bills and policy changes, such as the prospects for legislation to curb asbestos liability or whether the FDA would approve or reject a new drug.

For information, hedge funds began turning to former government officials, Washington insiders and lobbyists, such as Mr. Vogel. For lobbyists, providing such information was often an easy task—they already had the information at hand. Now, some say the risks are too high.

"In the past, the business was based on setting up dinners with people," Mr. Vogel said. "We don't want to talk to any of those people; we want to look at the data and the story that the data is telling."

Write to Brody Mullins at brody.mullins@wsj.com

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